LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7217 | **DATE PREPARED:** Jan 5, 2002
BILL NUMBER: HB 1328 | **BILL AMENDED:**

SUBJECT: State Spending Limit.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
X FEDERAL

Summary of Legislation: This bill limits increases in state expenditures to an amount based on the increase in inflation and population. The bill allows the General Assembly to authorize additional spending through adoption of a concurrent resolution. The bill also provides that certain state revenues that exceed the spending limit are to be deposited in the Property Tax Replacement Fund.

Effective Date: Upon passage.

Explanation of State Expenditures: *Expenditure Limits:* This bill establishes a maximum annual percentage change for state government expenditures to be based on the sum of the percentage changes in inflation (defined as the percentage change in the Consumer Price Index- CPI for the year ending in April) and in population plus 1%. If revenues exceed the expenditure limit, the excess shall be deposited in the Property Tax Replacement Fund. The General Assembly may authorize spending that exceeds the expenditure limit if a concurrent resolution is adopted by a majority of the members of both the House and Senate.

The bill allows individuals to file a lawsuit to enforce the state expenditure limits. Successful plaintiffs are allowed costs and reasonable attorney fees. The state may recover costs and reasonable attorney fees if a suit is ruled frivolous.

This bill applies to appropriations beginning in FY 2004. According to the November 14, 2001, *Surplus Statement*, FY 2003 budgeted appropriations are $10,497.9 M and net expenditures are estimated to be $10,488.9 M. The average annual change in CPI for the last five years (May through April) has been 2.5%. The average annual change in population has been less than 1%. Depending on the level of inflation and change in population in 2002, FY 2004 expenditures could be restricted to approximately a 4.4% increase. The November 2001 revenue forecast also projects a 2.7% increase in General Fund and Property Tax Replacement Fund revenue from FY 2002 to FY 2003. There is no official forecast of revenue collections for FY 2004 and beyond.

The impact on state spending and the amount of revenue which would be available for refund is subject to legislative, executive, and judicial actions.

Background Information: The average annual change in the CPI (based on May through April) and population for the last five years, as well as the maximum limits set out in this bill, are identified below.

Year Ending April Avg Index	% Change CPI	% Change in Pop	Max % (includes +1%)
1997	2.95%	.9%	4.85%
1998	1.88%	.9%	3.78%
1999	1.67%	.9%	3.57%
2000	2.65%	.9%	4.55%
2001	3.43%	.9%	5.33%

Explanation of State Revenues:

Explanation of Local Expenditures: *Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

Explanation of Local Revenues:

State Agencies Affected: Attorney General's Office, State Budget Agency, General Assembly, Treasurer of State.

Local Agencies Affected: All.

Information Sources: *GF & PTRF Statement of Combined Estimated Unappropriated Reserve*, November 14, 2001 - State Budget Agency; November 14, 2001, *State Revenue Forecast* - Revenue Forecast Technical Committee; U.S. Census Bureau.